

HESS FOUNDATION
WILL THIS SECRETIVE
FOUNDATION
EVOLVE BEYOND
CHECKBOOK
PHILANTHROPY?

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philamplify
honest feedback to improve philanthropy

EXECUTIVE SUMMARY

“In a lot of respects the foundation is only at the edge of what it can accomplish. Professionalizing the staffing and allowing the board to embrace more professional staff and stronger governance would take things to a much more impactful level. Right now ... they are basically bank tellers. This transactional type of philanthropy – you’re working at the bottom of your license.”

—FOUNDATION STAKEHOLDER

Much about the Hess Foundation, and any philanthropic individual or family, is to be admired; certainly, the organizations that benefit from the Hess Foundation’s general operating support are grateful and responsible stewards of the foundation’s charitable dollars. On an individual, personal level, Hess Foundation trustees appear to be active, thoughtful and responsive grantmakers. Each Hess Foundation board member has been and continues to be a significant contributor of time, talent and resources as both a volunteer and public servant. The freedom and flexibility, as well as the tax benefits, represented by Hess Foundation’s brand of “checkbook philanthropy” are not without precedent nor, in this case, do they appear to be inappropriate or overreaching. Hess Foundation grantmaking simply represents the bare minimum in terms of philanthropic strategy, transparency, payout and impact.

The Hess Foundation was founded by Leon Hess, founder of oil company Hess Corporation (known as Amerada Hess until 2006) and former owner of the New York Jets football team. When Hess died in 1999, his widow Norma became president of the foundation until her death in 2010. Subsequently, the size of the board of directors decreased from eight to five, and Hess’ son John, the youngest of the three Hess children and current CEO of

Hess Corporation, became president of the foundation. John Hess’ sisters, Marlene Hess and Constance Williams, are the foundation’s vice presidents. The remaining board members are Eugene Goodwillie Jr., a retired attorney for White & Case who once represented Hess Corporation and Leon Hess’ estate, and Thomas Kean, former governor of New Jersey, chair of the 9/11 Commission and former Hess Corporation board member.

The Hess Foundation makes more than half of its grants to large, established organizations and all its grants to organizations addressing issues or communities in which Hess family members have direct and personal ties. The Hess Foundation supports programs and institutions focused on: arts and culture; health and wellness, including hospitals; and education, including universities, private secondary schools and charter schools. Hess directs a modest portion of its support to programs that increase opportunity and access for individuals facing specific educational, socioeconomic, gender, health and other barriers to success. The majority of grants are made to organizations in New York; New Jersey; and the Philadelphia metropolitan area, also known as the Delaware Valley. A small number of grantees have a global reach but all are located in the United States.

Between 2010 and 2012, the Hess Foundation awarded 783 grants totaling \$89 million. The average grant size was \$113,000; the median was \$210,000. The largest was \$5 million; the smallest was \$2,500. Of the 783 grants awarded between 2010 and 2012, 401 were made to organizations with budgets of \$10 million or more. The largest number of grants (348), totaling \$52 million, were awarded in the tristate region of New York, Connecticut and New Jersey. The next most frequently supported region was the Delaware Valley, receiving 205 grants totaling \$17.8 million.

The Hess Foundation has often awarded grants for multiple years; interviews revealed that Hess typically makes grants annually, during the last quarter of each year, sometimes spanning decades. Forty-three of 100 grantee survey respondents and 16 of 29 grantee interviewees reported that the relationship with Hess originated and remained (even years later) between a Hess trustee and the grantee's board member rather than between professional staff.

NCRP invited the Hess Foundation's leadership and management to participate in developing this assessment. NCRP has shared the study's methodology and intentions with the foundation's management firm. Neither the trustees nor the foundation's management firm, CohnReznick, responded in any way to invitations to participate. This unresponsiveness correlates with feedback from long-time grantees and well-connected peers who described the foundation as mysterious and invisible.

In contrast, Hess' corporate giving has a pronounced public presence as well as a professional staff and a set of policies and practices aligned with corporate giving best practice. While it is impossible to determine whether the Hess Foundation's pursuit of the bare minimum is intentional or benign neglect, the high levels of engagement by board

members in other aspects of public life suggest the former. Perhaps each family member just prefers to act alone rather than through a collective and unified board. It may be a matter of organizational maturity or evolution, although several family foundation experts suggested that family foundations rarely follow a linear trajectory from informal to formal. Many remain informal and transactional forever.

While financially substantial and personally meaningful, the Hess Foundation's impact is limited by significant operational, communications and strategic weaknesses. Several stakeholders believed that the Hess family's values aligned with a commitment to social and economic justice, but a study of the Hess Foundation revealed no philanthropic strategy and no engagement with the larger philanthropic community. Current grantees and other stakeholders are eager to connect more deeply with the foundation's values and strategy and to see the foundation collaborate with other funders and sectors to address systemic issues facing the Delaware Valley, New York and New Jersey.

Its constituents and peers urge the Hess Foundation to embrace and cultivate a more active and accountable dynamic with grantees. Its current operations leave the Hess Foundation out of step with the times. Transparency is one of the more compelling topics to surface throughout society and in philanthropy in recent years. The last three decades have been marked by the rise of the Internet, access to big data, and a redefining of what a right to privacy means. Visibility and a willingness to be transparent are expected, not optional, for most American institutions.

NCRP and others have stepped forward to assist foundations in engaging with stakeholders, communities and grantees in new ways as strategic partners. Grounded

in best practice and philanthropic impact, the Foundation Center's Glasspockets initiative is a powerful resource and incentive to make foundation decision-making, strategies and impact more transparent. A collaborative effort of the Aspen Institute's Nonprofit Data Project has convened the sector's data hubs, including Foundation Center and Guidestar, to determine which, when and how nonprofit finances could be made more accessible and compatible. Individual foundations – large and small, and of diverse types and missions – have tackled transparency by engaging in open, public dialogue and debate with stakeholders and grantees. Together, leaders in the philanthropic community have sought to dismantle the image of the insular, detached funder.

The philanthropic, nonprofit, public and private sectors have all changed. If the Hess Foundation wishes to invest its full cadre of resources in organizations capable of lasting impact, it too must change. Hess family members need look no further than the Hess Corporation's giving program to find an example of more transparent, professionally-staffed philanthropy. This report urges the Hess Foundation to move beyond checkbook philanthropy and to invest in achieving its own and its grantees' full potential.

KEY FINDINGS

1. **The Hess Foundation does not make its grantmaking goals and strategy public. It awards grants to large, established, often elite organizations that focus on communities and issues with which Hess family members have direct and personal ties.**
2. **Fewer than two in every 10 grant dollars explicitly benefit underserved communities. Still fewer are directed toward systems change and equity.**
3. **Grantees value the Hess Foundation's unrestricted support and minimal reporting requirements. However, grantees would welcome opportunities for increased communication, dialogue and partnership with foundation leaders.**
4. **In contrast to Hess Corporation's giving, the Hess Foundation's operations are insular and lack transparency. As a result, the foundation remains a mystery to potential nonprofit and philanthropic partners and misses opportunities to exercise leadership and amplify impact.**
5. **Both the Hess Foundation and the charitable lead trust (CLT) that provide annual income to the Hess Foundation are heavily invested in Hess Corporation stock. The charitable vehicles and associated investments enable the family to retain ownership of Hess stock, free from capital gains or inheritance taxes, until 2035 when one vehicle, the CLT, is scheduled to revert to Hess heirs. The lack of asset diversification may benefit the Hess family, but it places the foundation's charitable assets at risk and does not represent best investment practice.**
6. **The Hess Foundation's "checkbook philanthropy" pays out the legal minimum in grant dollars, is governed by a small, homogenous board and employs no dedicated professional staff. For a foundation of its size and potential influence, the Hess Foundation's operations are atypical and serve to weaken rather than bolster impact.**

RECOMMENDATIONS

1. **Retain the strongest elements of Hess' grantmaking: personal commitment, long-term operating support and manageable reporting requirements that "let grantees do their work."** On

an individual level, Hess trustees appear to be active, thoughtful and responsive leaders who significantly contribute their time, talent and resources. The freedom and flexibility afforded grantees by Hess Foundation's brand of "checkbook philanthropy" are refreshingly atypical of large foundations. Grantees urge the foundation to continue to trust nonprofits to use Hess funds as they see fit to achieve their mission with minimal paperwork demands.

2. **Seek input from peers and grantees to envision the systemic impact the Hess Foundation will have, especially among marginalized communities.** While financially substantial and personally meaningful, the Hess Foundation's impact is limited by significant operational, communications and strategic weaknesses. Hess Foundation grantmaking simply represents the bare minimum in terms of philanthropic strategy, openness and impact. Communities facing the most difficult path to social justice can benefit from philanthropy that promotes equity, transparency and cooperation with other sectors. If, in fact, the Hess family's values and public service align with a commitment to social and economic justice, we urge the foundation to develop a strategy that demonstrates that commitment, through engagement with the larger philanthropic and nonprofit community. Stakeholders urge the family to take explicit and deliberate action to move the Hess Foundation toward greater impact.

3. **Increase the Hess Foundation's transparency, improve communications and explore opportunities for philanthropic leadership. Invest more deeply in relationships with nonprofits and peer funders. Grantees and other stakeholders are saying "We want to know and work with you," and the foundation should take note.** The foundation's grantees are eager to connect more deeply with the foundation's values and strategy and to see the foundation collaborate with other funders to address systemic issues facing the Delaware Valley, New York and New Jersey. When asked what they would change if they were CEO of the Hess Foundation, "stronger communications" and "more transparent strategies" dominated grantee responses. Opportunities abound for the Hess Foundation to engage with grantees, like-minded peer foundations and community leaders. Hess family members need look no further than peer foundations and the corporation's giving program to find examples of more transparent, better connected and well-staffed philanthropy.
4. **Increase Hess Foundation payout to NCRP's recommended 6 percent of total assets for grants, plus operating expenses. This increase would allow the foundation to invest in targeted issues and communities while improving internal operations, including professional staffing, communications, governance, succession planning and "next gen" engagement.** Plenty of family foundations make significant – not exorbitant – investments in staffing, operations and governance to achieve measurable and sustainable impact. Deeper engagement and operational investments need not detract from personal relationships and serendipitous inspiration. Strong

operations and formal policies strengthen grantees' and foundations' ability to plan and steward resources.

- 5. Diversify the Hess Foundation's investment portfolio to manage risk and volatility while better serving the charitable purpose of this permanent philanthropic resource.** Many family foundations' assets and investments are tied directly to family businesses; even so, Hess Foundation and Leon Hess Charitable Lead Trust are overwhelmingly concentrated in a single company. When compared to its peers in size, the lack of diversification exposes its charitable purpose to unnecessary risk. In comparison, Levi Strauss Foundation and Dell Foundation, in spite of each foundation's relationship with a corporate entity, do not invest directly in the corporations from which their wealth came. Diversification better manages risk and volatility and therefore better serves the charitable purpose of each foundation.

ABOUT PHILAMPLIFY

Philamplify is an initiative of the National Committee for Responsive Philanthropy that aims to maximize the impact of our country's grantmakers. At the center of Philamplify is a series of comprehensive reports conducted by highly regarded researchers assessing foundation grantmaking and operations. Assessments include key findings and recommendations, along with in-depth analysis of foundations' funding strategies and feedback from peer funders, nonprofit leaders, issue experts, community members and more. By making these assessments public, Philamplify seeks to build a culture of transparency, mutual accountability and knowledge sharing.

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